

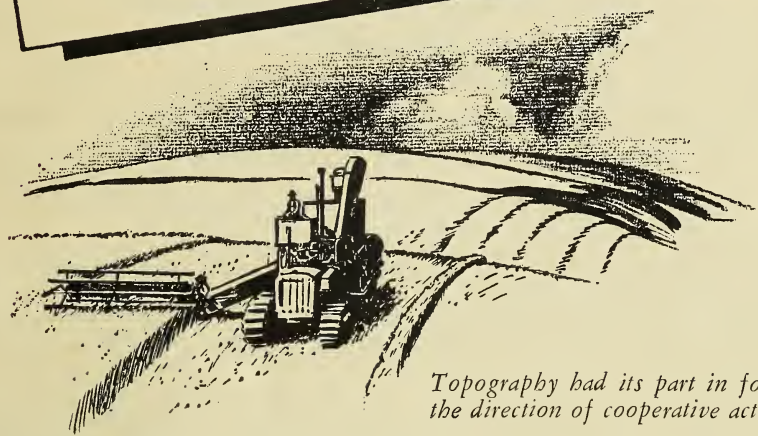
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Up-to-date
GRAIN MARKETING
in the Pacific Northwest

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*Topography had its part in focusing
the direction of cooperative activities.*

COOPERATIVE grain elevators and warehouses are established institutions in Washington, Oregon, and Idaho. In the Pacific Northwest more than 50 percent of the grain farmers are cooperative members. Their organizations handle a large volume—in recent years well over half of the grain delivered at the shipping points where they operate.

These local cooperatives are the outgrowth of early trial and error. They represent a development in services and operations to meet specific needs and conditions. Many are effective and efficient to a marked degree. Their future course is to maintain and to strengthen their effectiveness.

Warehousing was the first service which these cooperatives were formed to provide. Climatic conditions and the character of the land make winter hauling of grain difficult, and storage at shipping points therefore was found desirable. To meet this need farmers banded

together and built centrally located warehouses to store their grain until they were ready to sell it. "Flathouses" were used instead of elevators because the general practice of the locality (still followed to a considerable extent) was to sack grain instead of handling it in bulk. The income of these cooperatives was derived from the fixed charges for handling and storing.

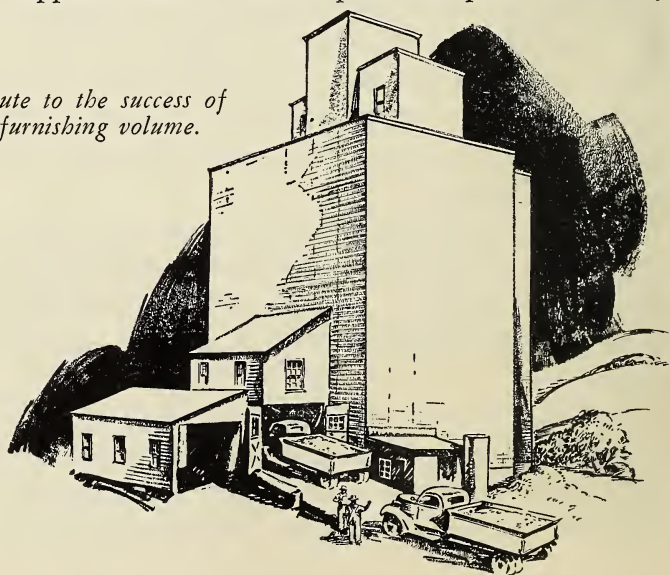
Range of Services Gradually Increased

As time went on need for other services developed. When farmers provided their own storage space at shipping points, private firms began to pay more for grain already in their own warehouses than for that stored in the farmers' houses. To meet this competition farmers began to merchandise grain as well as to store it cooperatively, a practice which has been generally followed ever since. The merchandising operations remain distinct from the handling and storage function, however—which is in contrast to the Middle West, where the income to cover operating expenses is derived from the margin between the purchase and sale prices of the grain and sidelines.

Other services which were added include assistance to members in meeting their current financial needs. This is done by granting loans, prior to harvest in some instances, and by making advances on grain in storage.

Sacks and twine are handled for those farmers who sack at harvest, and other farm supplies such as feeds and petroleum products recently

Members contribute to the success of a cooperative by furnishing volume.





*The use made of warehouses
has a direct bearing upon
costs of operation.*

have been made available by some of the organizations. Sideline activities, however, are not as important as with grain cooperatives in other sections of the country.

Maintaining Producer-Control Presents Problem

That this range of cooperative services meets to a satisfactory degree the present requirements of patrons is confirmed by figures showing that about three-fourths of all members patronize their associations regularly. Of the 25 percent who were not regular patrons, more than one-third had become nonproducers in 1937. This raises the widespread problem among older cooperatives of keeping the stock of the association and its control in the hands of active producers.

The solution for this is a provision in the bylaws restricting common stock ownership to actual producers. To become members in the first place, most associations require that the farmer be a producer; that he purchase at least one share of stock; and in some associations, that he sign a standard marketing agreement. If he ceases to be a producer, he is no longer interested in the association from the standpoint of the services it may render him. If at the same time he retains his stock in the cooperative, he will be inclined to measure its value in terms of returns on his stock investment rather than by services rendered for the farmers as a whole.

The number of members in Pacific Northwest grain associations varies greatly, as some associations operate at only one shipping point or cover a small territory, while others operate at several stations and cover a wide area or may have an extensive territory contributory to a single

station. The number of members per station ranged from 21 to 73 in 1937, while the number of members per association varied from 73 to 476. The association with the largest membership operated at 12 stations.

Measuring the Cooperative's Effectiveness

Regardless of the size of a cooperative its purpose is to furnish services at savings to the members. The extent to which this can be done is largely determined by the volume of business which the members supply, and the financial support which they lend to their own enterprise. This all adds up to financial soundness—and financial soundness in a business organization is somewhat similar to physical soundness in an individual. Both of them are partly the result of a "build up" in the past. Both of them are an indication of preparedness for the future.

Financial soundness gets down to such everyday fundamentals as the ability of the association to pay its bills without interfering with its operating position; its ability to borrow more money for working capital if necessary; and the proportion of total investment in the business which is actually owned by the members.

As for the tests of financial soundness, there are certain earmarks of health and certain danger signals of ailment that past experience in grain elevators and similar business enterprises have taught the observer to watch for.

A healthy organization, for example, must be able to meet its current obligations and remain in a satisfactory operating position, just as a healthy individual must be able to do his everyday job without exhausting his strength. In the case of a grain elevator, if it has \$2 of current assets for each dollar of current liabilities, it is ordinarily considered

Grain is now handled both in sacks—as in the foreground—and in bulk. A modern type elevator for bulk storage is in the background.

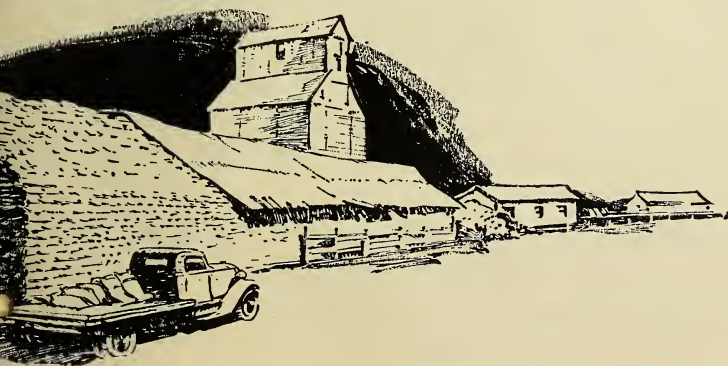


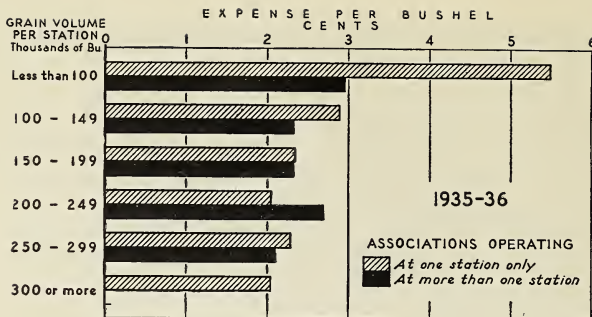
strong enough to meet its current obligations as they come due without unduly depleting operating capital.

At the close of the 1936-37 operating season only 10 percent of the associations in the Pacific Northwest had current assets which were less than current liabilities. At the same time one-half of the associations had current assets at least equal to but less than twice as large as current liabilities, leaving 40 percent that had \$2 or more of current assets for each dollar of current indebtedness.

A healthy business, like a healthy individual, also should be able to look beyond its day-to-day needs and abilities. It should have not only the strength to meet its current obligations, but the potential strength to take care of its long-term indebtedness as well. When its fixed assets—which include buildings and equipment—are worth twice as much at their depreciated value as its long-term mortgages or other liabilities, its position in this respect is satisfactory. In other words an association with a mortgage and other fixed indebtedness amounting to \$40,000 should have facilities and equipment that are worth at least \$80,000. For the Pacific Northwest associations included in the study the ratio was slightly less. This indicates that as a group the long-term indebtedness was a little too high, and a real problem for individual associations that had much less than \$2 invested in fixed assets for each dollar of long-term indebtedness.

Cash position is another indication of financial strength, and in this the Pacific Northwest grain cooperatives showed up well at the time of the study. A satisfactory cash position in a business organization is ordinarily 20 cents in cash for each dollar of current liabilities. The associations as a group had nearly 55 cents.





Per bushel handling expenses are generally lower as elevator volume increases.

Larger Member Investment Desirable

"Net worth" is as important in the diagnosis of financial condition as blood pressure is in appraising a man's physical condition. Net worth is simply the difference between what the business organization has and what it owes. It is the dollar value of what its members own—their equity.

If this net worth totals up to \$1.50 or more for every dollar's worth of plant, equipment, and other fixed assets at their depreciated value, the grain association is usually considered to be in a safe position. In the Pacific Northwest at the close of the 1936-37 season, the grain cooperatives averaged only \$1.03 in net worth to \$1 of fixed assets, and three-fourths of the associations had less than \$1.50 of net worth for each \$1 of fixed assets. This low ratio is explainable with some associations because of the comparatively short time they have been in existence, and because of the pressure they have been under to convert their facilities from sack to bulk storage. Nevertheless such associations have the problem of increasing their net worth.

On a percentage basis, the members' equity is the net worth in proportion to all assets. This is the extent to which they own their own organizations. The members of Pacific Northwest grain cooperatives as a group, had an equity of about 50 percent in their associations, which is less than desirable. Associations with a low equity position should attempt at all times to increase the equity of their members, especially during years of substantial net gains.

It is a widely accepted rule by grain cooperatives that members' equity in their association should become at least large enough to furnish capital needed for plant and equipment, plus half of the average operating capital. Ordinarily this should enable the members to have finan-

cial control of their business and enable the association to better survive years of low volume. It also gives members greater confidence in their organization. Such an organization can effect greater savings by taking advantage of cash discounts on supplies purchased and paying interest on less borrowed capital.

Aside from adequate financial support, the chief contribution to cooperative success which the member can help supply is an adequate volume of business. Operating results are dependent upon volume and the consequent cost of operation, as well as on the efficient use of labor and facilities.

Volume per individual association is large in the Pacific Northwest. Of 60 associations furnishing volume data in 1936-37, a year of above-normal production, none warehoused less than 100,000 bushels and 17 warehoused more than 600,000 bushels each. A few associations warehoused more than $1\frac{1}{2}$ million bushels.

If an association handled less than 150,000 bushels of grain, chances that it would operate at a loss during the 3-year period studied were 42 out of 100. The associations in this low-volume group which did not show losses had such small savings that paying dividends on capital stock and increasing members' equity in the business by additions to reserves, or the payment of patronage dividends, were made difficult. Associations handling more than 150,000 bushels of grain found it much easier to show gains over operating expenses. To assure an association an adequate volume of grain, 100 or more member-patrons were needed.

Other Factors Affect Expenses

The direct warehouse expense per bushel for warehousing grain was about 2 cents when more than 150,000 bushels were warehoused. The expense per bushel was considerably higher when a smaller volume was warehoused and higher for associations operating at only one station, than for those operating at more than one station. This suggests that associations operating at more than one station are in a better position to adjust operations to volume.

Inasmuch as wages for labor make up a large part of direct warehouse expense, the efficiency with which labor is used has considerable influence on direct warehouse expense per bushel. During the crop year of 1935-36, those associations that warehoused less than 50,000 bushels

of grain per man-year of warehouse labor had a direct warehouse expense per bushel of a little more than 4 cents. When the volume per man-year of labor was between 50,000 and 100,000 bushels, direct expense dropped to less than $2\frac{1}{2}$ cents per bushel. There was no apparent influence on direct warehouse expense per bushel beyond 100,000 bushels for each man-year of labor employed.

The use made of warehouse facilities also has a direct bearing on the direct warehouse expense per bushel. A measure of the use made of facilities is capacity turnover, which means the number of times the available capacity is filled and refilled during a crop year. Since there is little farm storage of grain, storage facilities at local shipping points must be large in proportion to the year's production of grain so a large capacity turnover is not to be expected. Nevertheless, it is necessary that an association keep the capacity of its facilities in line with probable volume.

In general cooperative elevator and warehouse associations in the Pacific Northwest have placed themselves in a position to handle grain efficiently and to be of real service to farmers. It is a position that can be maintained by recognition and correction of possible weaknesses; by keeping abreast of changes that are continually occurring; and by making necessary adjustments to meet these changes.

This circular is condensed from Bulletin 40
"Cooperative Grain Marketing by Local
Warehouses and Elevators in the Pacific
Northwest," by Harry E. Ratcliffe, and based
on a 3-year study from 1934-35 to 1936-37.
Copies of this larger publication with more
detailed information may be obtained, while
available, from—

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